Internal Audit Report

Human Resources and
Total Compensation

July 2002

Audit Team Members

George Miller, Audit Manager

Sandy Chockey, IT Audit Manager

Cathleen L. Galassi, Senior Auditor

Christina Black, Associate Auditor

Susan Huntley, Associate Auditor

Internal Audit Department

301 W Jefferson • 10th Floor • Phx • AZ • 85003 • (602) 506-1585 • Fax (602) 506-8957

July 31, 2002

Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2001-02 review of the Human Resources and Total Compensation departments. The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

The highlights of this report include the following:

- $65,000 due annually to the County from employees on Leaves of Absence is not collected. Another $12,000 due from the Arizona State Retirement System for retirees' health insurance premiums has not been paid.
- Financial controls over the Mariflex Plan are not adequate; we found a $140,000 reporting discrepancy and $12,000 of non-reimbursed payments.
- Total Compensation has not developed procedures to effectively monitor Short Term Disability cases and ensure that billed charges are accurate. Control weaknesses have resulted in contractor overpayments and reporting errors.
- Several Human Resources and Total Compensation processes are performed manually and need to be automated; others utilize outdated applications.

Attached are the report summary, detailed findings, recommendations, and the Human Resources and Total Compensation departments' management responses. We have reviewed this information with the directors and appreciate the excellent cooperation provided by the departments' management and staffs. If you have questions, or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

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Total Compensation's procedures for collecting and remitting insurance premiums generally ensure employee coverage for most County plans. However, $65,000 due annually from employees on Leaves of Absence (LOA) has not been collected. Another $12,000 due from the Arizona State Retirement System (ASRS) for retirees has not been paid. We found control weaknesses that expose the County, retirees, and LOA employees to financial risk. Total Compensation should strengthen controls over benefit activities and apply automated technology to increase operational efficiency and improve workflow.

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Our review of salary processing activities found inefficiencies, control weaknesses, and exceptions to Compensation Plan requirements. Personnel Agendas are prepared through a cumbersome manual process; 69 percent of salary actions are processed more than 30 days retroactively. These control weaknesses expose the County to financial risk and reporting inaccuracies. Total Compensation should improve and streamline the process and controls over salary actions.

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Several important Human Resources Department (HR) and Total Compensation processes are performed manually and need to be automated; others utilize outdated/inefficient automated applications. The risk of system failure increases if aged technology is not replaced; inefficiencies and errors will continue if manual processes are not automated. HR and Total Compensation should ensure that proposed system improvements are completed.

Tuition Reimbursement

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HR does not adequately review employees' tuition reimbursement requests or enforce County policy requirements. Our testing of 55 tuition reimbursements, made to County employees, identified significant control weaknesses and 74 exceptions to policy requirements. These represent a waste of County resources and shows that the program is often utilized for inappropriate purposes. HR should strengthen controls to ensure that only appropriate tuition reimbursements are made to employees for job related classes.

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Our review of HR and Total Compensation contracts found that the two departments procure contracts in compliance with Arizona Revised Statutes (ARS) and Maricopa County Procurement Code requirements. We identified control weaknesses over the billing review process that has resulted in $33,500 of potential overpayments and unauthorized charges. HR and Total Compensation should strengthen controls over contract billing reviews.

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Our review of the Merit Commission Hearing and Appeals process found significant control weaknesses, financial waste, and exceptions to contract requirements. These control weaknesses and exceptions expose the County to financial and legal risk. HR and the Merit Commission should review current policy and implement changes to document and improve the Hearing and Appeal process.

Inventory Controls

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Our review of HR inventory controls over employee testing and promotional exams identified significant control weaknesses that expose the County to possible legal risk. We also found HR's controls over County Store merchandise, donated goods, and event tickets to be inadequate to ensure inventory security and that items are used only for intended purposes. HR should strengthen its inventory controls.

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HR complies with all Merit System requirements for employee recruitment and hiring activities. However, our records testing activities identified a pattern of missing information critical for compliance with Federal regulations. HR's Records Office has not established adequate procedures to ensure employee records and supporting documentation are filed in a timely manner; records are backlogged between two and six months or longer. This situation may expose the County to legal risk. HR should implement measures to ensure compliance with laws, alleviate the records filing backlog, and timely processing.

Introduction

Background

The Maricopa County Board of Supervisors (Board) passed resolutions in January 1953 creating the positions of County Manager and Finance Director, as well as, appointing a Personnel Director. The Personnel Department was later renamed Human Resources (HR) to reflect an expanded range of services. The department's responsibilities include staffing, training and development, payroll and records, Merit Commission and grievance processing, disability/leaves, employee programs, and customer services. Numerous Federal, State, local regulations, and Merit System Rules govern these operations.

Beginning in February 2002, HR's Compensation and Benefits Division was made an independent department and renamed Total Compensation. The department negotiates and oversees County employee benefits plan packages and also develops and reviews compensation plans. Total Compensation is included in this review because its functions are so closely related to HR. The department is also subject to a variety of regulations.

Mission and Goals

The HR and Total Compensation missions are to provide leadership, human resources systems, benefit packages and programs to officials, departments, and agencies so they can achieve their business goals. The departments have developed three formal goals in conjunction with the County's Managing for Results (MfR) program. These include:

- Redefine and redesign services and delivery methods to meet the emerging needs of departments and agencies.
- Reduce the number of employees voluntarily terminating for compensation issues by implementing a responsive, flexible, and competitive total compensation and benefits program.
- Demonstrate corporate leadership through performance consulting and innovative transactional support by results achieved, customer reporting, and active partnership in departmental strategic planning and business planning.

Operating Budget

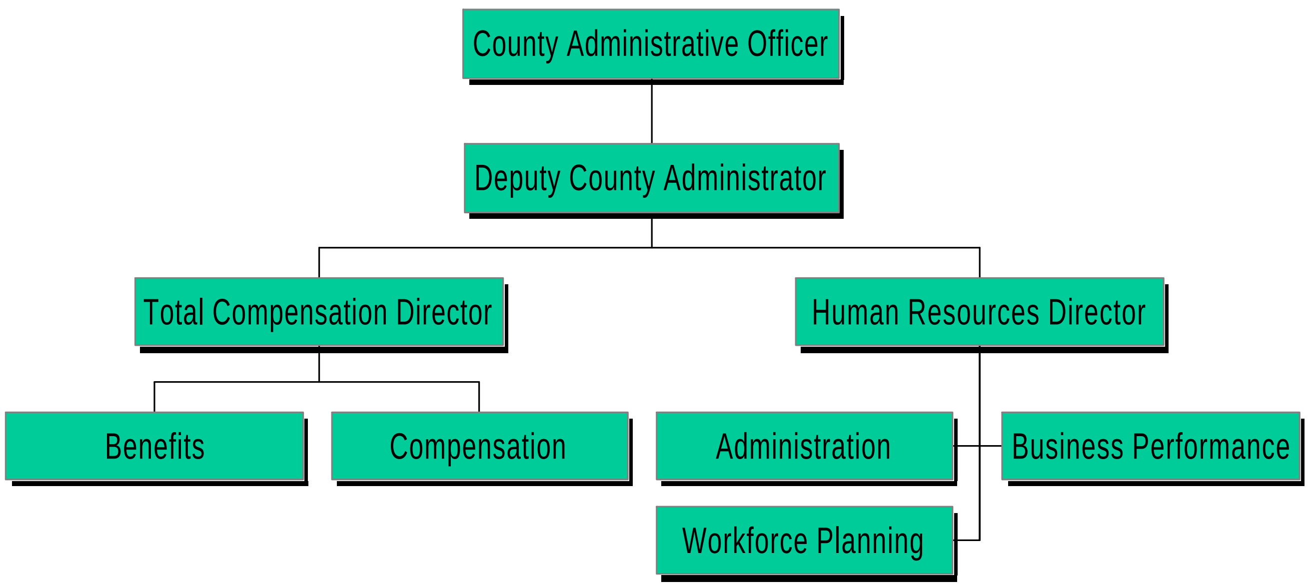
The combined Fiscal Year (FY) 2001-02 operating budgets for HR and Total Compensation are $10.9 million. Both departments are part of the General Fund.

Organizational Structure

Beginning in FY 2001-02 the Organizational Planning and Training Department was made part of HR. Also, a former HR operating division was dissolved and the positions were reassigned within the department. Today HR is organized into three operating divisions (Administration, Workforce Planning, and Business Performance) that report to the Director.

HR and Total Compensation report to the Deputy County Administrator shown by the organizational chart below. The two departments are authorized a total of 80 positions for FY 2001-02

HUMAN RESOURCES DEPARTMENT and TOTAL COMPENSATION



Scope and Methodology

The scope of our HR/Total Compensation audit was to determine if:

- Technology is adequately implemented to address the requirements necessary to improve workflow and processes.
- Benefit plans, premiums, and billings are monitored and controlled to protect the interest of County and employees.
- Merit Commission hearings and activities are conducted in accordance with mandated guidelines.
- Salary actions are processed timely and comply with Compensation Plan guidelines.

- Employee tuition costs are reimbursed according to County policy requirements.
- Employee recruitment and record maintenance activities comply with all Federal, State, and local requirements.
- Service contracts are procured and administered within the requirements established by the Maricopa County Procurement Code and the contracts.
- Controls over County Store inventories, donated items, and confidential exam materials are adequate to secure the materials and ensure that they are utilized only for appropriate purposes.

The audit was performed in accordance with Government Auditing Standards.

Future Audit Consideration

We recommend that the following HR and Total Compensation activities should be considered for future audit activities.

- Progress and results of planned, but not yet implemented, technology improvements.
- Biweekly payroll processing and reporting activities.
- Employee leaves and coding.
- Performance Plan reviews and documentation.
- Rewarding Ideas Program.

Department Reported Accomplishments

Human Resources and Total Compensation have provided the Internal Audit Department with the following information to be included in this report.

The Human Resources and Total Compensation Departments have faced a number of significant challenges over the last several years and, in spite of these difficult circumstances, have demonstrated the ability to provide exceptional results. These results were represented in the B+ grade that Maricopa County received for its Human Resources functions on this past year's "report card" from Governing Magazine's Government Performance Project. A few of the accomplishments that were highlighted include:

1. Since establishment of a new hybrid "broadband" compensation strategy in 1997, County employee turnover has dropped over 10%. The salary advancement submission procedure has also been streamlined and introduction of further enhancements, as part of the on-going "market range project", should further cement the County's position as an innovative leader in government compensation practice.
2. Overall employee satisfaction scores have improved every year over the past five years.
3. The County's combined leave/benefits package tied for second among Arizona's 30 largest employers in each of the last two Watson Wyatt benefits studies, performed for the Arizona Department of Administration.
4. An aggressive benefits strategy has allowed the County to enjoy below market health insurance rates over the past five years, while maintaining a high quality of care for employee and retiree members. Negotiations are currently underway to establish a new strategy designed to continue the trend of exceptional employee benefits.
5. The Human Resources Department's Employee Services Division received national recognition for its "best practices" in recruitment from the International Personnel Management Association.
6. Job applications can now be submitted though an on-line process.
7. Total Compensation's Benefits Division introduced an internet-based on-line benefits enrollment system, which permits employees' family members to be more directly involved in important benefits decisions. Additional employee benefits-related information is also now available throughout the year on both the County's intranet and internet sites.
8. The employee-training catalog has been made available through the County's intranet and employees may now sign up for classes on-line. In addition, several classes are now available on-line.
9. The Payroll system migrated to an upgraded version of Integral's HRMS product. This migration permitted departments to do payroll time entry on-line.
10. The Employee Leave Plan was completely revised using an innovative design. The Plan permits greater flexibility in the use of paid leave, while improving Maricopa County's compliance with the federal Family & Medical Leave Act — resulting in a dramatic decrease in FMLA litigation.

Issue 1 Benefit Premium Processing

Summary

Total Compensation's procedures for collecting and remitting insurance premiums generally ensure employees' in-force coverage for most County plans. However, $65,000 due annually from employees on Leaves of Absence (LOA) has not been collected. Another $12,000 due from the Arizona State Retirement System (ASRS) for retirees has not been paid. We found control weaknesses that expose the County, retirees, and LOA employees to financial risk. Total Compensation should strengthen controls over benefit activities and apply automated technology to increase operational efficiency and improve workflow.

Requirements

Arizona Revised Statutes (ARS) 11-263 authorizes counties to provide health care insurance for retired employees at favorable rates. The County allows active employees, on leaves of absence, to receive their health insurance benefits for up to 180 days providing that the employees pay their portion of the premium. The funds and balances are recorded in accounts established for each employee.

American Institute of Certified Public Accountants (AICPA) standards require authorized signers over fund accounts be kept current, job duties be segregated, accounts be regularly reconciled, and security controls be established.

Review and Results

The Total Compensation Benefits Division handles reporting and remitting of insurance premiums. We reviewed payments made to CIGNA Healthcare, EDS Dental, UNUM Life, and Supplemental Life contractors. Most premiums are collected through payroll deductions and remitted to vendors monthly. Collections and remittances are documented and can be traced from payroll to balance sheet accounts, matching vendor payment amounts to premium collections. However, the written processing procedures are outdated. We also identified the following processing and control weaknesses:

<u>Retiree Health Insurance Payments</u>: ASRS deducts premiums from the pensions of County retirees who retain their medical plan. ASRS is three months behind remitting the premiums to the County and the County did not remit retiree premiums for January through March 2002 to the vendor until April. The Benefits Division has not reconciled State remittances to paid County premiums. As a result, an estimated $12,000 discrepancy exists between the premiums deducted by ASRS and County payments.

<u>Leaves of Absences (LOA)</u>: The department's past procedures for identifying and collecting premiums from employees on LOA were not adequate to prevent an estimated $65,000 annual loss. The Benefits Division developed a report in 2002 that identifies County employees

who show no payroll premium deductions and are potentially on LOA. The Maricopa Integrated Health System (MIHS), for which the County collects and remits benefits, does not have a similar LOA report and the premiums are not always collected.

Balance Sheet/Fund Accounts: These are used to process premiums and vendor remittances but are not reviewed annually to ensure that funding is adequate to cover claims and plan payments. Neither the Benefits Division, nor the Department of Finance, has documentation to support reserve analysis.

Segregation of Duties/Documentation: Controls are not adequate to ensure proper processing of benefit adjustments. A designated Benefit Coordinator processes benefit adjustments done by other employees to the payroll system. Department management does not approve the adjustments, nor does the coordinator use the standard adjustment worksheet. Three of four coordinator exception spreadsheets reviewed were not adequately documented or signed by the coordinator and supervisor.

Negative Impact

When insurance premiums are not documented and remitted on a timely basis, County employees and retirees are at risk for continuing coverage. This practice also exposes the County to legal and financial risk.

Recommendation

Total Compensation should:

A. Contact ASRS to develop formal agreed upon procedures to ensure that retiree medical payments are accurately remitted to the County on a timely basis.

B. Reconcile ASRS retiree medical premiums received to County premiums paid, collect any premiums due from the State, and establish a separate general ledger account to track retiree premiums.

C. Work with MIHS management to identify, collect, and remit the agency's LOA premiums to the County for processing.

D. Develop written procedures for premium processing activities; ensure adequate segregation of duties, approval requirements, and documentation are addressed; establish reserve analysis procedures.

E. Investigate purchase and installation of low cost software accounting package (e.g., Quicken, QuickBooks) to track retirees, LOAs, individual contractors, and other exception billings.

Issue 2 Self-Funded Insurance Plans

Summary

Our review of three County Self-Funded Insurance plans found each to be adequately documented; separate bank accounts are maintained. We found significant control weaknesses over the Mariflex Plan, resulting in a $140,000 reporting discrepancy and $12,000 of non- reimbursed FY 2000-01 payments. Total Compensation should strengthen controls over these areas.

Plan and State Requirements

Internal Revenue Service Section 125 (Cafeteria Plans) allows employees to choose among benefit plans, including flexible spending accounts. The Maricopa County Cafeteria Plan and County Health Plan documents address payments made that exceed contributions. If total charges against a Participant's Salary Reduction Account exceed total salary reductions, the balance is the participant's debt and payable to the County upon demand. Also, the participant authorizes the County to withhold the amount from participant's compensation.

ARS 11-263 (cited in Issue 1) also applies to insurance Self-Funded Plans (SFP). Additionally, ARS 20-508 addresses disability insurance and requires the insurer to maintain reserves to cover liabilities and ensure payment of obligations, including unearned premiums.

AICPA standards require current authorized signers over accounts, segregation of duties, proper use of accounts, and account reconciliation, to ensure that funds are adequately controlled.

Self-Funded Plan Issues

The Total Compensation Benefits Division oversees three SFPs:

- United Concordia Dental
- UNUMPROVIDENT (UNUM) Short Term Disability
- Mariflex Flexible Spending Medical and Dependent Care accounts.

We reviewed SFP insurance premium deductions, postings to bank accounts, supporting documentation for charged claims, and bank account reconciliations. We also examined records to verify if each SFP has a separate bank account and if the Benefits Division has performed a reserve analysis for the plans. We found the following results:

- The Concordia and UNUM plans appear to be adequately controlled, with monthly reconciliation of bank balances to the general ledger.
- Written policies do not describe procedures necessary to ensure that self-funded processing minimizes risks and a reserve analysis has not been developed for the three plans.

Mariflex Plan

The Mariflex Plan allows employees to make pre-tax contributions for medical and dependent care expenses used to pay bills not covered by other insurance. The expenses may be paid up to the amount that the employee pledged prior to actual making the entire contribution.

The IRS allows the plan owner (County) to retain, at year-end, employee contributions that have exceeded payments made. These funds are not returned to participants. Our review of Total Compensation's administration of the Mariflex plan identified several issues.

- While the Mariflex Plan monthly bank statement is reconciled to general ledger, plan totals are not reconciled to the vendor year-end statement. This reconciliation is necessary to ensure that vendor and County records for contributions, disbursements, and remaining contribution balances agree. As of February 2002, combined 2001 and 2002 discrepancies totaled $140,000.
- Bank statements show that the Mariflex Plan bank account had been overdrawn twice within four months, with claims exceeding contributions. The Benefits Division had to supplement contribution premiums to cover claim expenses.
- Several years of Mariflex Plan contributions have been combined in the general ledger and plan funds are co-mingled in an account with Concordia and UNUM funds. The contribution level versus payment level, for excess/shortfall, is not documented at year-end.
- If employees terminate prior to full contribution funding, the Mariflex account may be short funded. The Benefits Division does not attempt to recover deficits from terminated employees.
- During 2001 payments exceeded contributions by $12,000 for employees who later terminated. During 2002 payments totaling $46,000 have been made against non-funded contributions. The remaining contributions may reduce this amount, however, if employees terminate this amount may increase.
- The Mariflex bank account signature card was not revised when former individuals with signing authority left the department; two of the three current signers are no longer valid.

Potential Liability The County is exposed to potential legal and financial risk if insurance plan documentation is not handled in compliance with the requirements of Federal laws and plan documents. Mariflex Plan budgeted revenues are not fully realized when employees utilize the benefit and then terminate employment after having overspent their accounts. If the overspent funds are not recovered from the former employees, the County will experience a revenue shortage.

Recommendation Total Compensation should:

A. Develop written work procedures that address self-funded insurance plan activities and account processing.

B. Contact the Department of Finance to establish an individual general ledger account for each self-funded plan to prevent commingling of funds; perform a reserve analysis annually on each plan.

C. Review the cafeteria plan document and follow proper year-end reconciliation procedures of Mariflex Spending Account. Reconcile Mariflex vendor reports to general ledger to establish current actual contribution excess or shortfall.

D. Determine if collecting money due from terminated/other employees will financially benefit the County and, if so, develop a methodology.

E. Obtain a new Mariflex Plan signature card with current signers.

Issue 3 Short Term Disability Plan

Summary

Our review of the County's Short Term Disability (STD) contract found that Total Compensation has not developed procedures to effectively monitor STD cases and ensure that billed charges are accurate. Several control weaknesses were identified, resulting in contractor overpayments and reporting errors, which increase the County's legal and financial exposure. Total Compensation should strengthen controls over STD contract activities.

ARS and Contract Requirements

ARS 38-651 permits expending public funds to procure health and accident coverage for full-time officers and employees. The law also authorizes flexible or cafeteria employee benefit plans and making payroll deductions to pay for disability insurance.

The County contracts with UNUMPROVIDENT to administer employee Short Term Disability (STD) benefits. The contract contains the following provisions:

- The Administrator will meet with County Human Resources Benefit and Case Management Personnel to establish administrative and claim payment procedures.
- The vendor will provide reports that include adjustments, claims incurred and paid, claims turnaround time, and quarterly utilization.

Billing Reviews

We examined 16 cases from the contractor's March 2002 Billing Report and compared the information to the vendor's March 2002 Active Case Report. The discrepancies found are described below:

- Eleven of 16 billed cases were not reflected on the Active Case Report. These were closed cases, employees had returned to work, or information was being submitted late and represented an adjustment on the March billing. However, no adjustment notation/report was submitted as required by the contract.
- The contractor correctly billed three cases for the month that employees returned to work. However, the contractor continued to bill for later months when the employee was no longer on disability. This resulted in $360 of overpayments.
- On the April 2002 Consolidated Advise to Pay report, two of five cases shown as being terminated remain active.

We also identified the following control weaknesses that negatively affect Total Compensation's ability to effectively manage this contract.

- Disability managers do not have copy of the STD contract and do not review and reconcile billings to the Disability Active and Terminated Cases report. NOTE: We provided a contract copy.
- The managers do not consistently verify payroll against disability payments, to avoid double payments, or check the administrator's eligibility determinations, denials, and calculations.
- The managers do not utilize the Plan Administrator's on-line reports or request other available reports to monitor contractor compliance and performance, analyze claims, or track claim utilization.

Negative Impact

The County is subject to legal and financial exposure, including overpayments, if Total Compensation does not adequately perform fiduciary reviews, reconciliations, and contract monitoring.

Recommendation

Total Compensation should:

A. Develop written procedures for STD contact review and monitoring activities, including the Plan Administrator's claims processing.

B. Effectively review and reconcile active and terminated cases to monthly billings.

C. Review recent billings and determine the actual amount of overpayments to Plan Administrator; work to recover overpayments.

Issue 4 Compensation Plan

Summary

Our review of salary action processing activities found inefficiencies, control weaknesses, and exceptions to Compensation Plan requirements. Personnel Agendas are prepared through a cumbersome manual process; 69 percent of salary actions are processed more than 30 days retroactively. These control weaknesses expose the County to financial risk and reporting inaccuracies. Total Compensation should improve and streamline the process and controls over salary actions.

Compensation Plan Requirements

Maricopa County's Compensation Plan defines salary action guidelines that include effective dates, budget requirements, and performance evaluation documentation, formal reviews, and approvals. Plan procedures require that salary advancements, special work assignments, and management assignments be input after the Board approves the Personnel Agenda. Salary advancements exceeding ten percent require approval by the Compensation Review Committee.

All other actions are to be input before the Board approves the Personnel Agenda. These include appointments to unclassified positions (from classified) with pay increase, promotions, performance incentive awards, hew hires, separations, and various transfers and temporary position changes.

Salary Actions and Plan Review

Salary advancements and other increases are not processed timely and effective dates often do not comply with policy requirements. During FY 2000-01, more than 8,700 salary advancements were processed retroactively and more than 10,000 were processed retroactively during the first nine months of FY 2001-02. Also, salary advancements over ten percent require Compensation Review Committee review.

We reviewed 119 salary actions over ten percent from three FY 2001-02 Personnel Agendas, including 34 advancements. We identified 85 other salary actions exceeding ten percent that did not require approval by the Compensation Review Committee. The agendas do not reflect or annotate items over ten percent. We also reviewed the salary action detail and the results are summarized in the table on the following page.

			DAYS RETROPAID					
PERSONNEL				**>30**	**60**	**90**		
AGENDA DATES	**$ IMPACT**	**<14**	**<30**	**<60**	**<90**	**<120**	**>120**	**TOTAL**
03/06/02	$54,736	17	86	238	8	0	13	**362**
02/20/02	$43,422	18	145	201	10	1	4	**379**
08/22/01	$72,362	9	113	303	13	3	54	**495**
	$170,520	**44**	**344**	**742**	**31**	**4**	**71**	**1,236**
Percent of Total		3.6%	27.8%	60.0%	2.5%	0.3%	5.7%	100.0%
Aggregate %		-	31.4%	91.4%	93.9%	94.3%	100.0%	

We selected 39 items, paid 90 days or more retroactively, from the three Personnel Agendas and reviewed processing times and patterns. The results of our review are summarized below:

Departmental Processing

- Personnel Action Forms (PAFs) are often submitted with position requests and issues pending.
- PAFs submitted by departments and approved by OMB are initially receipted by the Records office and forwarded to Employment Services, Total Compensation, or the HR Director where delays of two weeks to two months or longer were noted.
- When employees are placed on Special Work Assignment probationary status the PAFs are often not processed for up to six months later; sometimes after employees have completed probation.
- Departments delay completing salary action paperwork believing that HR instantly processes the PAFs and not knowing that many activities must be completed prior to the final salary action.

Compensation Plan

Personnel Agenda effective dates for advancements do not always comply with current compensation policy requirements. The plan's effective date ("...the first date of the pay period following the pay period in which the salary advancement request was submitted to HR for review...") causes confusion because PAF's are routed to several HR sections and the defined submission date is vague. The plan effective date does not account for untimely routing and PAFs are not included on an agenda item, for Board approval, until finally returned to the Records office.

Personnel Agenda Processing

We were unable to identify an ARS or other requirement that cites every salary action must be placed on the Personnel Agenda. The agendas are prepared through a cumbersome manual process. Total Compensation, HR, and the Clerk of the Board report that few, if any, actions are denied. Placing every salary action on agendas appears to be redundant since the Board approves all County positions, and the overall salary budget, before the beginning of the fiscal year. The requirement that some actions be authorized prior to agenda processing, while others are authorized post agenda, has caused additional delays.

We also found that approving authorities and HR do not always date and/or stamp PAFs for completion, receipt, forwarding or processing. The lack of processing indicators makes pinpointing lag time responsibility difficult. The HR Records Division has recently improved its documentation to alleviate bearing the responsibility for delays.

Impact

Retroactive salary actions cause County's financial reports to be misrepresented by overstating the current period and understating the prior period. Based on our test sample, an average of $56,840 is retroactively paid per pay period. Projected annually, $1.4 million is posted to the current rather than prior accounting periods.

The County experiences financial risk when actual expenses are not recorded against correct budget period totals. The lack of clarity of salary action effective dates causes delays as departments are unaware of the actual processing required. Employee morale can be negatively impacted when salary dollars are not received in a reasonable timeframe.

Recommendation

Total Compensation and HR should:

A. Review the Compensation Plan to clarify the effective date language, and improve the overall salary action process.

B. Provide specific salary action processing instructions for County departments.

C. Review and improve measures to provide accountability for the salary action process, including dating and signing actions.

D. Address ARS and County requirements with the County Attorney to verify if every employee action requires Board approval.

Issue 5 Technology

Summary

Several important Human Resources Department (HR) and Total Compensation processes are performed manually and need to be automated; others utilize outdated/inefficient automated applications. The risk of system failure increases if aged technology is not replaced; inefficiencies and errors will continue if manual processes are not automated. HR and Total Compensation should ensure that proposed system improvements are completed.

IT Strategic Plan

Information Technology (IT) best practices suggest that an organization should develop a strategic plan that addresses expected IT infrastructure changes and improvements necessary or beneficial over the upcoming three years. The General Accounting Office's publication "Assessing Reliability of Computer Processed Data" recommends that documentation of a well-controlled system be complete and current. The absence may indicate controls do not exist or are not adequately understood. Problem situations include old IT systems with:

- High program maintenance.
- Large volumes of data with frequent processing/updating activity involving numerous transaction types and sources.
- Complex and messy data structures with high turnover.

The Office of the Chief Information Officer performs some IT strategic planning for HR. A formal master plan has been developed outlining strategy for the department's systems, including a project summary. HR has also submitted technology requests, for the current and next fiscal years, to upgrade and enhance its aging systems. However, future progress may be slow because both departments have limited resources.

Opportunities for Improvement

During our fieldwork and testing activities we conducted process and paper volume reviews involved in many job tasks. These activities identified manual processes, inefficiencies, system delays, and a lack of technology to improve processes. Examples are summarized below.

<u>Employee Benefits</u>

- The Benefits office downloads payroll data to capture insurance premium totals, which are then manually copied to spreadsheets. This activity needs to be made more efficient through automation.

- The office manually tracks and processes exception premiums (e.g., retirees retaining County medical insurance, employees on LOA, independent contractors, etc). Automated reports to identify LOA employees and facilitate billings and account balances have not been developed.
- The County has technology that allows employees to enroll on-line each November for their next year's benefits. However, this technology is not available year-round, which hinders customer service and operational efficiency.

Recruitment

- The recruitment and hiring process involves many steps, verifications, and volumes of manual data input. Technology upgrades are needed to improve the on-line application process.
- The County uses the inefficient and antiquated SIGMA system to track applicants in order to comply with Federal requirements. The vendor will no longer support SIGMA after 2002. HR requested upgrades to this system in January 2002.

Employee Records

All employee personal and payroll data requires manual input, with the input done off paper (applications, data sheets, PAFs, W2s/W4s, and other deductions). Tracking, auditing, and filing paper has created severe backlogs for the Records office, which appears to be inadequately staffed for the volumes processed. We address this situation in detail in Issue #10. Automation could reduce paper volume or all departments could be given on-line access to directly input information.

Negative Impact

The County is exposed to financial risk from canceled, delayed, and inadequately documented IT projects. If aged technology is not replaced prior to becoming outdated and unsupported by vendors, the County risks information system failures. Manual tasks create inefficiencies, potential errors for information capture, and employee frustration.

Recommendation

HR and Total Compensation should:

A. Develop a project matrix that identifies and prioritizes all technology needs and includes projects, primary contacts, service requests and information date, estimated costs, current and known project impediments, and implementation timelines.

B. Review the project matrix with the Office of the Chief Information Officer for additional direction and support of projects.

C. Schedule regular meetings to discuss and adjust project priorities to ensure implementation is on track or delays are documented.

Issue 6 Tuition Reimbursement

Summary

HR does not adequately review employees' tuition reimbursement requests or enforce County policy requirements. Our testing of 55 tuition reimbursements, made to County employees, identified significant control weaknesses and 74 exceptions to policy requirements. These represent a waste of County resources and show that the program is often utilized for inappropriate purposes. HR should strengthen controls to ensure that only appropriate tuition reimbursements are made to employees for job related classes.

County Policy

The County's tuition reimbursement policy (A1801) assists employees to maintain or improve knowledge, skills, and professional growth in their current position or profession. Funds are distributed on a first-come, first served, basis to employees working in departments that receive general fund appropriations.

The application documents employee and supervisor explanations of how the class relates to the employee's current job and shows the tuition amount. Application must be pre-approved within 90 days prior to beginning a class and a grade card must be submitted within 60 days of the end of class. Reimbursements are made through payroll, based on class grade, with a maximum of $5,000 annually per employee.

Tuition and Reimbursement Exceptions

HR has established controls to ensure that tuition reimbursements are made only for classes directly related to job skills, in accordance with County policy. HR maintains adequate records, which show that three departments have utilized 60 percent of the tuition funds over the last two years. However, our review of 55 classes taken by 48 employees identified material exceptions to policy requirements.

- 22 (40%) of the classes did not have a direct relationship to the employees' current jobs.
- 48 employee and or supervisor statements did not specify how the class related to the job.
- Four grade reports were submitted more than 60 days after the class end date.
- One employee appeared to take the same class twice.

Tuition reimbursements made to employees for classes that do not appear related to the employees' position are shown in the table on the following page.

Class/Course	*Employee Job Title*	*Department*
Contemporary Literature	Application Development Mgr	Judicial Info Systems
Hebrew I & II (MA in Theology)	Program Coordinator	Sheriff
New Testament I/II (MA in Theology)	Program Coordinator	Sheriff
Images Violence & Justice (2 times)	Surveillance Officer	Adult Probation
Strength & Flex Training	Judicial Assistant	Superior Court
Film & History	Judicial Assistant	Superior Court
Life Planning & Career Development	Admin Coordinator II	Adult Probation
Cultural Diversity	Property Appraiser	Assessor
Introduction to IT	File Room Associate	Clerk of Court
Graduation Review (College)	Legal Training Coordinator	County Attorney
Professional Research Part II	Youth Supervisor	Juvenile Probation
New Testament History	Financial Managerial Asst	Sheriff
Action Learning Module (Research)	Deputy Chief	Sheriff
Intro to Pro Portfolio (Personal Plans)	Accountant I	Facilities Management
Economics for Business	Electronic Maintenance	Facilities Management
Ethics	Network Technician	Medical Eligibility
AutoCad	Admin Coordinator	Clerk of Superior Court
PH.D Thesis Research	GIS Programmer	Assessor

Cause and Financial Impact

Some County departments appear to be requesting General Fund monies to pay tuition for classes that are not related to employees' current jobs. HR has approved tuition reimbursement applications for inappropriate classes. Some employees, therefore, may be denied tuition reimbursement for classes that will improve their current skills.

Recommendation

HR should enforce the requirements over the County's tuition reimbursement program, specifically those addressing job relatedness, to ensure compliance with policy requirements.

Issue 7 Contracts

Summary

Our review of HR and Total Compensation contracts found that the two departments procure contracts in compliance with ARS and Maricopa County Procurement Code requirements. We identified control weaknesses over the billing review process that has resulted in $33,500 of potential overpayments and unauthorized charges. HR and Total Compensation should strengthen controls over contract billing reviews.

ARS and Contract Requirements

ARS 11-952 and the Maricopa County Procurement Code establish detailed requirements for procuring service contracts. HR and Total Compensation manage several Board approved contracts that contain pricing, performance, and compliance provisions.

Contract Procurement

We reviewed the County's procurement of 8 agreements administered by HR and Total Compensation for with to ARS and Procurement Code requirements. These contracts are:

- Merit Commission Hearing Officers.
- Short Term Disability Benefit (STD) Claim Administration.
- Employee Benefit Consultant.
- Workers' Compensation Claim Administration.
- Employee Assistance Program (EAP) Services.
- Maricopa County Employees Federal Credit Union,
- Arizona Association of Counties (AAOC)
- Arizona State Retirement System (ASRS) collection of retiree Medical insurance premiums.

Our review found a current copy of each contract on file with a written purpose, duration, and termination clauses. The Materials Management Department or the Board approved each contract, as required. No exceptions were noted.

NOTE: The County does not have a written agreement with ASRS for collecting County retirees' medical premiums from their pensions and remitting the funds to the County. However, the County Attorney reports that a formal agreement is not required, as ARS allows the employees to purchase insurance through their employers.

Contract Billings

We tested a sample of paid billings, from four of the above contracts, to determine if the amounts billed and paid agree with the contract rates.

We found that HR and Total Compensation do not adequately review contractor billings and compliance with contract provisions and pricing requirements. Employees responsible for conducting the billing reviews do not always have a current copy of the contract. The results of our billing review activities are summarized below.

Employee Benefit Consultant: Five monthly billings were reviewed and the retainer fee was accurate for each billing. However, we found other exceptions to contract pricing provisions.

- 117.5 consulting hours for "audit preparation" were billed at $250/hour for three months instead of the authorized $225/hour, resulting in a $2,900 overpayment. An "audit preparation" fee for August and September was charged with no hours or hourly rate.
- Two months' travel expenses ($2,100) were charged and paid without supporting documentation.
- An "override fee credit" appeared on all 5 billings with no reason, duration, or total. The Benefits Division had not addressed the issue.

Short Term Disability (STD): The April 2001 contract requires the County to pay the Plan Administrator a monthly retainer ($429), initial adjudication fee per claim ($146), and monthly ongoing charge per claim ($72). The contract does not authorize dual fees for the first month of claim service.

We found that the contractor charges both adjudication and ongoing fees for the initial month. Based on contract utilization since April 2001 and the billing test sample results, we estimate that the County overpaid the Plan Administrator $28,512 during the first 11 months of the contract.

NOTE: We requested the Materials Management Department and County Attorney's Office to clarify whether the Plan Administrator's first month dual charges are allowable under the contract. Both offices report that the contract only authorizes a single monthly fee.

Employee Assistance Program (EAP): The EAP contract rates are flat per employee, depending on utilization and change in number, plus an annual bonus if satisfaction survey results are maintained at 90 percent. Our review found that none of the contractor's billings or subsequent payments exceeded the contract rates. However, the HR Business Performance Division does not adequately review the billings against contract pricing provisions before authorizing payment.

Independent Contractor: During our contract review activities, we noted that the County pays the employer's share of benefits costs ($5,640 per year) for a County Attorney contractor. The contract authorizes an hourly compensation rate but does not require the County to make any payment for the contractor's benefits.

Risks

If HR and Total Compensation staff do not adequately review contractor billings and supporting documentation, against contract provisions, the County risks overpaying for the services.

Recommendation

HR and Total Compensation should:

A. Develop written procedures to effectively monitor and evaluate monthly contractor billings.

B. Review contracts that have billing errors and discrepancies and then work with vendors to recover any overpayments.

Issue 8 Merit Commission

Summary

Our review of the Merit Commission Hearing and Appeals process found significant control weaknesses, financial waste, and exceptions to contract requirements. These control weaknesses and exceptions expose the County to financial and legal risk. HR and the Merit Commission should review current policy and implement changes to document and improve the Hearing and Appeal process.

Applicable Requirements

ARS authorizes creation of the Merit Commission, its overall responsibilities, and appeal timelines. Merit Commission Rules contain detailed requirements for procedural operations and hearings. Commissioner and Hearing Officer Guides supplement Merit Commission Rules with additional requirements. The Hearing Officer contract authorizes payment rates for hearings and related work.

ARS 38-424 authorizes state political subdivisions and courts to use tape recorders, or other recording devises, in lieu of court reporters for any purpose. This practice, adopted by many Superior Court divisions and County justice courts, saves the County thousands of dollars annually.

Employee Appeal Hearings

We reviewed ten Merit Commission hearings, involving employee appeals from nine County departments, for compliance with applicable legal and contract regulations. The results are summarized below.

Court Reporters: Merit Commission hearing proceedings are recorded by Court reporters; an expense that is not budgeted. As noted above, the Superior Court uses electronic recording devices and a memo, prepared by the Presiding Judge of the Superior Court, encourages the use of electronic devices. If Merit Commission hearings officers utilized electronic recording devices the County would save an estimated $9,400 per year. Other court reporter related problems that the Merit Commission has experienced are:

- When the court reporter is not present the case is continued by the hearing officer, which increases costs. By using an electronic recording device this situation would not occur. During our review, we noted ten appeals that had no documentation for scheduling court reporters.
- The HR Hearing Guide requires hearing transcripts to be delivered within 14 days and the Court Reporter contract calls for 20 days. Three of ten transcripts reviewed were not delivered within the 20 day contract requirement.
- During FY 2001-02, $8,300 of court reporter expenses was charged to Office Supplies instead of Legal Services.

Appeals Filings and Continuances: We found that file documentation does not adequately support hearing delays and continuances lasting up to nine months.

- Nine of the ten continued appeals reviewed had no documentation to explain the continuance; six of the nine continued cases had more than one continuance. Five appeal hearings lasted between 86 and 224 days.
- One case appeal and, in one other case, written objections to a Hearing Officer's recommendations were not filed within the required time period.
- Two cases appealed to Merit Commission remain pending; one appeal having action tabled at three commission meetings.
- Certified mail is used to send all documentation to the employee, however, only the original hearing date letter and the commission's order need to be sent certified.

Contract Billings: Our review of six Hearing Officer contract billings ($12,290 total payments) found minor control weaknesses and that one Hearing Officer over billed the County $111 (1%) for services.

Commission Meetings and Minutes: We found that Merit Commission general session minutes are maintained in compliance with ARS requirements. Executive Session minutes are maintained confidential, as required. We also noted the following issues, which may be of concern:

- The District 1 Commissioner position was vacant for over one year, prior to an appointment in January 2002.
- The Merit Commission, which meets monthly, has tabled decisions affecting employee appeal outcomes for up to 90 days, leaving employees with unresolved job issues.

Recommendation

HR should:

A. Review Merit Commission guidelines to ensure that hearing and appeal actions comply with required timelines and documentation is adequate to support case delays in the event of legal action.

B. Consider utilizing electronic recording equipment, instead of a court reporter, to record proceedings during Merit Commission hearings.

C. Ensure that all billings comply with contract terms and conditions.

Issue 9 Inventory Controls

Summary

Our review of HR inventory controls over employee testing and promotional exams identified significant control weaknesses that expose the County to possible legal risk. We also found HR's controls over County Store merchandise, donated goods, and event tickets to be inadequate to ensure inventory security and that items are used only for intended purposes. HR should strengthen its inventory controls.

Employment Testing Laws

The Code of Federal Regulations (CFR) defines discrimination as the use of any selection procedure having an adverse impact on the employment of members of any race, sex, or ethnic group. Several laws that prohibit employment discrimination and address testing methods/exams include:

- U.S. Office of Personnel Management (Merit System Principles)
- Civil Rights Acts of 1991 and 1964
- Title I of Americans with Disabilities Act of 1990 (ADA)

The Western Regional Intergovernmental Personnel Assessment Council (WRIPAC) represents 80 member government and public agencies. The council assists and educates agencies on personnel selection standards and maintaining compliance with legal requirements.

Exams and Test Booklets

We created a checklist, based on WRIPAC's Testing Security Booklet, to assess HR's controls over employment testing materials. We then performed an independent inventory of the department's 1,180 testing books and related documents. We identified the following inventory and control weaknesses over exam access and procedures.

- A Master Exam Inventory prior to April 2002 and exam destruction records could not be found, which indicates that exam booklets could be used for inappropriate purposes.
- Exam booklets are sequentially numbered and include test name but do not show the test number that HR's tracking system (SIGMA) utilizes. Answer keys and test answer sheets reflect test name only. The incomplete tracking information makes cross referencing difficult and increases the risk for using a wrong answer key.
- 759 (64%) exam booklets on hand are inactive or obsolete, dating to 1976. HR policy requires these exams to be destroyed.
- One Sheriff Deputy exam booklet was missing. HR could not verify if this is the same booklet that was determined to be missing during an exam administered during FY 2000-01.

HR does not adequately control access to its exam storage room and file cabinets. A listing of employees authorized to access control lists has not been documented locks are not changed when the employees terminate. A sign in/out log for test booklets and materials was only recently instituted in April 2002.

We also found that HR exam procedures do not provide adequate safeguards against discrimination because the following processes are not addressed:

- ADA applicants: Braille booklets for the visually impaired have not been prepared and interpreters for the hearing impaired are not available.
- Current County employees: Employees often attend testing without completing exam requests or going through the standard process.
- Destruction of promotional exams: These are intended for single use and then are to be destroyed. A recently administered Detention Officer exam should have been destroyed.
- Testing material discard/destruction: Procedures require test responses to be maintained for only one year and then be destroyed. We observed boxes of aged responses.
- HR uses only one exam proctor: This may not be adequate to safeguard testing process and account for testing materials.
- SIGMA tracking system: The system used to store employee test scores has limited record space. Test scores are not cleared out monthly so that records are not overwritten and scores are not lost.

Inventory Controls

The American Institute of Certified Public Accounts (AICPA) recommends effective internal controls over assets that include adequate accountability, segregation of duties, effective record keeping and physical safeguards. Periodic inventories should also be conducted that compare detail records with assets, investigating shortages and overages, and documenting adjustments for differences.

Purchased and Donated Merchandise

HR manages the County Store where employees can buy a variety of clothing, merchandise, and event tickets. We found that HR has not established controls adequate to ensure that donated and promotional merchandise are recorded and used only for appropriate purposes.

Current HR procedures require that an inventory of County Store merchandise be performed every six months. However, inventories do not include donated items, promotional or complimentary merchandise, or discounted event tickets. During our review we noted the following control weaknesses over donated items:

- A lack of regularly scheduled inventories and no centralized physical location to receive donation and complimentary merchandise.
- Inconsistent identification, receipt, and distribution of donated and complimentary merchandise.
- Co-mingling personal items with donated and event items.

The following table summarizes our inventory count for HR promotional and donated items found and estimates the value of the items:

Inventory Scenario	Estimated Dollar Value	Number of Occurrences	Total # Items Involved
Not on Inventory List; Physically on Hand	$2,699	70	888
On Inventory List; Not on Hand	$115	23	1507
Audit Inventory Equaled Inventory List	$181	17	39

Our actual count of discounted event tickets did not equal the Point of Sale (POS) system totals, which is used to record the County Store's inventory. We verified 37 items and found 12 items either over or short. We also could not verify POS inventory amounts for the following two non-valued items, obtained at no cost, but sold to produce revenue.

- Danny's Carousel $10 car wash; negative 153 count
- Harkins $5 movie tickets; negative 5 count.

The inventory included 243 Harkins $4 tickets ($972 total value) requiring investigation, as our inventory count disclosed no tickets on hand. These exceptions indicate that tickets may be used for improper purposes and the master inventory list is not accurately maintained.

Ticket Controls

The HR Program Administrator's (PA) function is primarily marketing and promotion. To properly segregate duties, this employee should not perform ticket distribution, sales, or inventory activities. However, during our review we found the following control weaknesses.

- The PA receives all vendor consigned and pre-paid tickets and collects unused tickets for return to vendor, which is unnecessary, increases risk of shrinkage, and delays ticket returns.
- The PA forwards tickets to the County Store supervisor, who logs the inventory. We found no documentation showing the PA verifies numbers of tickets received or returned into/out of POS.

- Tickets for daily sales, separated from total inventory, are not counted on receipt and return and could contribute to shrinkage.
- A monthly reconciliation of consigned tickets sales amounts to vendor payments is not performed. Inventory differences on consigned tickets are currently taken out of the over/short account, an incorrect accounting process.

Risk and Exposure

The lack of written procedures and controls over County employment exams and test booklets exposes the County to legal risk related to possible discriminatory actions. HR's weak controls over ticket sales exposes the County to financial loss, resulting from lost tickets and any missing donated or complimentary merchandise, and negative publicity.

Recommendation

HR should:

A. Update procedures to strengthen security controls over recruitment and exam material and perform regular exam inventories as required.

B. Revise any exams that have been unaccounted for, or found to be out of HR control, to ensure that future tests are legitimate and fair.

C. Update County Store procedures and implement activities necessary to strengthen controls over ticket inventories, sales, and, receipts.

D. Establish written procedures and controls for identifying, receipting, and securing all donated and complimentary merchandise.

E. Segregate marketing activities from the cash/ticket handling process.

Issue 10 Employee Records

Summary

HR complies with all Merit System requirements for employee recruitment and hiring activities. However, our records testing activities identified a pattern of missing information critical for compliance with Federal regulations. HR's Records Office has not established adequate procedures to ensure employee records and supporting documentation are filed in a timely manner; records are backlogged between two and six months or longer. This situation may expose the County to legal risk. HR should implement measures to ensure compliance with laws, alleviate the records filing backlog, and address timely processing.

Federal Employment Regulations

A host of Federal regulations directly apply to the County's employment hiring practices.

- The Civil Rights Act of 1964: Prohibits employee discrimination based on race, color, religion, sex and national origin and provides records be maintained by the employer.
- The Civil Service Reform Act of 1978: Contains prohibitions designated to promote overall fairness in personnel actions.
- The United States Code and Code of Federal Regulations: Outlines requirements for employers to maintain records and the information to be captured. Records backup automated system information and must be current for verification purposes.
- Immigration Reform and Control Act : Helps eliminate employment of illegal aliens by requiring employers to verify employees documented eligibility to work (I9 forms). The forms should be kept in a separate file to facilitate audits.
- Equal Employment Opportunity Commission (EEOC) standards.

Maricopa County's Merit Rules assist the County to comply with the above regulations. The rules establish requirements for filling vacant positions through open competitive recruitment, which include:

- Public job announcements.
- Testing eligible candidates and establishing employment registers.
- Certifying and interviewing a required number of candidates.
- Providing preference points.

Employee Recruitment and Recordkeeping

We tested documentation for 25 new hires to determine if HR is meeting Merit Rule requirements. The results of the testing are:

Employee Recruitment

HR has established adequate controls to ensure Merit System Rules for recruitment and hiring are observed. Vacant positions are properly posted and applicant data, test information, and preference points are accurately entered into the SIGMA tracking and testing system. Our testing of open registers and open/closed certification lists found no material control weaknesses. We also found that HR enters disposition codes, from Certification Lists of Eligibles, into SIGMA and that hiring departments contact and/or interview the required number of applicants.

HR maintains records to ensure that open competitive jobs are posted to County weekly job announcements. The announcements are available to employees and the general public via the EBC, Internet, and Arizona Republic. EEOC listings are distributed to the Arizona Department of Economic Security and educational institutions. HR maintains postings for 2 years or more in accordance with the record retention schedule.

The recruitment and hiring process involves many steps, verifications, and volumes of manual data input. Technology improvements have not yet been introduced to assist in the process.

Employee Records

We reviewed the record files of 40 active and 15 terminated employees for completeness and compliance to Federal code requirements. The table below details items reviewed and missing information noted:

CRITERIA ITEMS	NUMBER OF FILES MISSING INFORMATION
Job Status Form	15
Application/Resume	2
Personnel Action Form/Hire	0
Personnel Data Form	12
Proof of Citizenship (Form I9)	13
Copy of Social Security Card	9
Federal Tax Form W4	6
State Tax Form A4	14
Arizona State Retirement Enrollment	9
Loyalty Oath	2
E-Mail Acknowledgement	32
Inter-Intranet Agreement	36
Selective Services Questionnaire	12
Latest Performance Plan	15
Latest Performance Evaluation	15

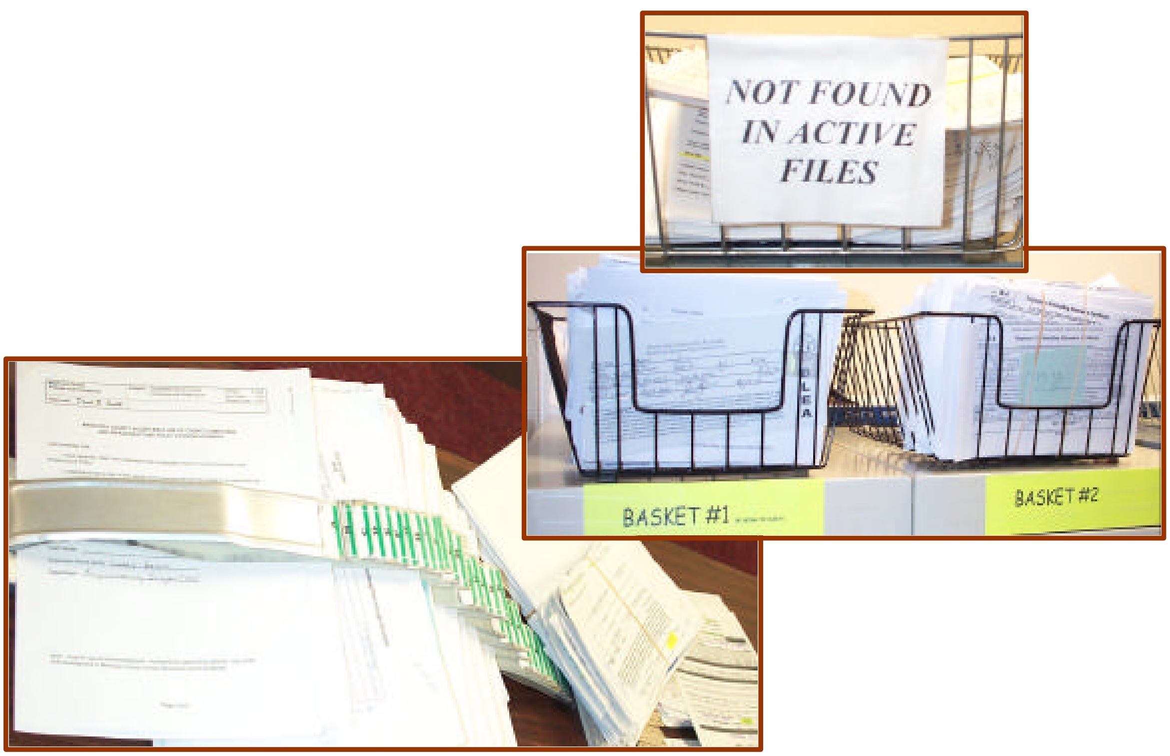
We also verified U.S. Department of Justice Immigration and Naturalization Service Employment Eligibility Verification (I9) forms. We contacted ten County departments, employing 508 persons, to determine if the departments maintain the forms and if the forms are kept in separate files, as suggested by the Federal government. We found that all ten departments maintain I9 files and eight maintain the forms in separate files. The other departments report that they would immediately establish separate I9 files.

<u>Records Filing and Maintenance</u>

Our physical observations of the HR Records Office and discussion with the supervisor revealed that the office is two to six months (or more) behind in filing and processing. Specific problems are:

- New Hires set-ups are two to four months backlogged and evaluations and payroll data (W2s, W4s, etc.) are 6 months or more backlogged.
- Fifteen test sample employee files were missing documentation to support Personnel Agenda salary action items. Eight new hire files (January through March 2002) were not set up and on file.

The office does not have a full time file clerk and any staff leave slows workflow. The paper volume is intensive, backlogs continue to build, and the office's current technology applications do not adequately handle employee records processing requirements.



Risk Incomplete or inaccurate employee system information and files may expose the County to liability if the files are needed for legal proceedings or other purposes.

Recommendation HR should:

A. Conduct record file reviews, on a regular basis, to verify if critical documentation is maintained and obtain any missing information.

B. Develop an action plan to eliminate the backlog of unfiled records.

C. Review records office job functions and processing and allocate adequate staffing necessary to complete all significant activities in a timely manner.